

# INSIGHT

## Forward march

**G. Bin Zhao** wonders whether, after the agreement to allow direct trade between the yen and the renminbi, the Korean won and Taiwan dollar could be next as China pushes on towards full internationalisation of its currency



This month saw the passing of an important milestone in the process of renminbi internationalisation: the currency is being allowed to trade directly against the Japanese yen. Although Sino-Japanese political relations are not progressing, the economic policies between the two countries are extremely pragmatic. Direct currency trading between the world's second- and third-largest economies is strategically significant and lays a strong foundation for Sino-Japanese trade and financial co-operation.

Looking back at the process of renminbi internationalisation, there have been few events such as this "great leap forward". So, after the yen, which currency will be next to exchange directly with the renminbi?

China was Japan's largest trading partner in 2011, while Japan was China's fourth largest. The top spot is held by the European Union and whether the euro can trade directly with the renminbi is of great significance, but the prospects are not promising.

First, the euro is facing many challenges, the European debt crisis led to instability and there are predictions that the currency may disintegrate. In addition, negotiations between China and the euro-zone governments could be relatively complex; therefore, it would take some

time before the euro and renminbi could be directly converted.

As for the Hong Kong dollar, as early as 2009, the city was given approval to carry out renminbi cross-border trade settlements with Shanghai and four designated cities in Guangdong province, and by 2011, Hong Kong's total renminbi trade settlements amounted to 1.9 trillion yuan (HK\$2.34 trillion).

Hong Kong has more than 500 billion renminbi in deposits, accounting for about 10 per cent of all local bank deposits, and making it the third-largest currency held after Hong Kong and US dollars.

Hong Kong's market has the largest stock of offshore renminbi, the most extensive renminbi-related business structure, and has been the most active in developing innovative renminbi products.

The direct trading of the currency against

**Hong Kong's market has been the most active in developing innovative renminbi products**

the yen will promote further internationalisation of the renminbi, and it will also enhance the status of Hong Kong as an offshore renminbi centre.

Economist Ba Shusong said that one important strategy for internationalising the renminbi involved progressing from "peripheral to regional to global". In August and November 2010, allowing the direct trading of the renminbi against the Malaysian ringgit and the Russian rouble reflected the initial "peripheral" step in this strategy.

Whether it is from a desire to increase trade, or to continue with the "peripheral" strategy, the Korean won and Taiwan dollar are likely to become the next currencies targeted to trade directly with the renminbi. I recently attended a seminar given by former South Korean prime minister Chung Un-chan, who is also a renowned economist, and discussed direct trading of the renminbi and the won with him. Dr Chung said the renminbi could not be freely exchanged with the won and he estimated such a step would take a few years. He believed cross-border trade between China and South Korea should be settled through local currencies, progressing from small to large amounts, and that the process of direct currency conversion should be gradual.

Since 2005, China has been South Korea's

largest trading partner and has a significant trade deficit. The Bilateral Currency Swap Agreement signed between the People's Bank of China and the Bank of Korea totals nearly 360 billion yuan, second only in size to Hong Kong. Therefore, there is reason to believe the renminbi and the won will trade directly sometime soon.

It seems that the Taiwan dollar and the renminbi are on the verge of direct trading. According to one report, Taiwan's government has already agreed to allow direct conversion with the renminbi and negotiations related to the clearance and settlement mechanism for cross-strait currency are under way. If this proves to be true, the long-awaited wishes of the Taiwanese business community may soon come true.

Under the "peripheral strategy", direct trading between the renminbi and individual currencies can only meet the demand for trade settlement gradually. The renminbi still has a way to go to become a regional currency in East Asia and even in Asia. It will be a long process, possibly requiring decades of effort before it achieves free global exchange and circulation and becomes a major reserve currency.

G. Bin Zhao is executive editor at China's Economy & Policy

## Helping hand

**Dora Choi and Anita Chan** say schools need to take on the role of imparting life skills to children, given the lack of communication in families

Hong Kong prides itself on being an overachiever. It has held its position as a top-tier international financial centre for decades and the academic performance of its students consistently ranks among the top five in the world. The downside is the adverse effect on the family.

To maintain this economic prowess, the average Hong Kong parent spends 49 hours a week at work, placing the city among the top five developed economies with the longest working hours in the world. This means parents often get home long after their children have gone to bed. Students' lives are increasingly mirroring adult work schedules with after-school activities following the school day to maintain a competitive edge. Weekends are so packed with other classes that family conversation often only takes place in transit to the next activity.

A recent study of secondary students in Sha Tin by Hong Kong Polytechnic University shows a severe deterioration in parent-child communication. It found that 71 per cent interacted with their parents for fewer than 30 minutes a day. Among this cohort, more than 10 per cent spent less than one minute a day in conversation with one or both parents.

Within the past decade, Hong Kong has seen rising debt and consumption rates among adolescents, higher youth unemployment and increasing incidences of domestic violence. There are other areas for concern, too. Students who took part in The Women's Foundation Life Skills Programme said they felt unequipped to make informed choices about their future and worried that their lack of financial literacy skills was impairing their ability to help their families and make independent decisions.

While parents, ideally, should teach their children about sex, fiscal responsibility and other life skills, this is clearly not happening in most families.

The burden of imparting these critical life skills seems to have fallen to schools. Yet, currently, they only provide piecemeal and uneven instruction, squeezed into elective courses or broader subject areas. At the same time, social workers employed by schools to assist in handling student affairs are so stretched they only have time to address the most severe cases. Even where schools offer extra-curricular sessions in life skills by external specialists or trainers, they are generally voluntary, which leads to fluctuating attendance rates.

What is needed is a comprehensive and holistic approach to life skills education that is part of the standard curriculum. Schools need to evaluate the quality of their existing life skills lessons by measuring shifts in behaviour and attitudes, as well as levels of knowledge and awareness. Teachers and parents need to be taught and encouraged to reinforce the instruction the students receive.

We can no longer afford to think of teaching life skills as external to the classroom. Understanding relationships and money, and career and life planning, are powerful influences on our children's study habits, career paths and livelihoods. Our children need to be as knowledgeable in life skills as they are in academic subjects so they can realise their true potential in society.

Dora Choi, a professor at Chinese University, and Dr Anita Chan, of the Hong Kong Institute of Education, are academic advisers to The Women's Foundation Life Skills Programme. This article is part of a monthly series developed in collaboration with the foundation

## Sharing secrets and courting media is simply irresponsible

**Lau Nai-keung** laments the lack of morality among Hong Kong public figures

There has been a general breakdown of moral ethics in political behaviour in Hong Kong, and the situation is deteriorating quickly.

It began with the collapse of mutual trust. Nothing is secret, as no pledge or understanding is sacred – starting with the Executive Council's stringent code of confidentiality. Private phone conversations are liable to be leaked to the public, and off-the-record and anonymous comments are published with clear attributions.

The "big mouth" is the hero for protecting the interests of the public and its right to know, and the one denying the quotes is called a liar.

With this in mind, no public figure will speak out unless they have a private agenda. Instead, they keep silent or, when they are forced to make comments, utter a few politically correct words.

Government officials in particular are trained to toe the line and avoid making mistakes, and they are accused of being "human recorders".

When mutual trust has evaporated, nobody can have any discretion in public decisions, which are supposed to be fully transparent in accordance with pre-set rules and after full consultation with all stakeholders.

As objections can be raised at any stage and existing rules can be challenged at any time, few decisions can be made. Things are only decided much later when there is no alternative but to reach a consensus as issues have become

unbearable. With the loss of mutual trust, the populist media has risen to the occasion, posing as moral gatekeepers and the Fourth Estate, resulting in the current prevalence of trial by media. Politicians of all sorts are only too happy to go along with this, as they gain media exposure, popularity and votes.

It is now customary to force each and every politician and official to take a stand on hot issues, especially those related to the central government. The recent death of Li Wangyang (李旺陽) is a case in point. I sympathise, and agree there are a number of puzzles in this mysterious case, and that is exactly why public figures have to be extra cautious in their comments, especially when this is a matter outside our jurisdiction.

I can stand young hotheads claiming that it was a political assassination, but for some delegates to the National People's Congress and Chinese People's Political Consultative Conference deputies to rush in, join the protests and add to the chorus of questions is simple unthinkable.

One CPPCC member, Lew Mung-hung, even took out full-page adverts to demonstrate his self-righteous indignation.

Meanwhile, the chief executive, and several bureau heads who clearly have not been invited to join the next administration, started to make odd comments. That a chief executive facing corruption allegations would choose his last appearance in the Legislative Council to be one where he

thumbed his nose at the central government is beyond political decency. But the top prize goes to Secretary for Food and Health York Chow Yat-ngok, who said he doubted Li had hanged himself, and urged Hongkongers to speak out. How low can you go Dr Chow?

Top of the general category for recent inappropriate comments is unquestionably Joseph Yam Chi-kong. Throughout his days as head of the Monetary Authority, Yam championed the currency peg. Yet, suddenly, he comes out and openly advocates dropping the peg to the US dollar, a statement that could have caused havoc in the financial markets if it had not been handled swiftly by the government.

Yam is of course a high-profile backer of Henry Tang Ying-yan, the losing candidate in the recent chief executive race, and this perhaps could explain his most improper and irresponsible action.

Yet, the more horrible phenomenon is that these unethical acts have not been roundly condemned in public. Are we to assume, then, that such behaviour has become the norm in our society?

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## Royalty and democracy make an unhappy match

**Pavin Chachavalongpun** argues the time has come for Thailand's monarchy to take a step back

On Sunday, Thailand will commemorate the 80th anniversary of the abolition of absolute monarchy. After so long, however, not only has democracy struggled to take root, the monarchy has refused to step aside. Instead, it continues to dominate the political body and obstruct democratisation, deepening political polarisation.

Critics argue that the almost unrestrained power of the king, protected by the *lèse-majesté* law, has hindered development of elective institutions. Thai royalists often paint the domain as tainted by bad and immoral politicians. This has led to a new political culture in which the monarchy claims it has a right to intervene when it feels it is necessary.

Because of the incessant glorification of the monarchy throughout the reign of King Bhumibol Adulyadej, the intimate attachment of politics and society to the monarchy has served, metaphorically speaking, as a cell that prevents Thais from expressing unconventional thoughts. Thus, politics has remained intrinsically monarchist, with but a thin veneer of democratic characteristics.

This peculiar form is called "royal democracy" in Thailand, constructed according to the Bangkok-centric vision of power which is essentially royalist and nationalist. In this construct, the monarchy has been defined as an indispensable institution that demands popular submission

without conditions. The king has become more than just a head of state; he is now a demi-god, a highly moral figure, who must not be violated.

Paul Handley, in his revealing book *The King Never Smiles*, rightly explains that the king has always been a political player, debunking the myth that he is above politics. While governments have crumbled along the way, the king has consolidated his place in politics. The royal intervention in May 1992, shortly after bloody clashes between the army and pro-democracy groups, crowned him the stabiliser in politics.

But many aspects of absolute monarchy seem irreconcilable with modern values of democracy. Years of political manipulation have made many Thais more aware that their country has never been truly free from absolute monarchy and democracy is still chained. This has given birth to a phenomenon of *ta sawag*, or awakening, which is posing a challenge to the monarchy's political domination.

Thailand has arrived at a critical crossroads. Eighty years on, politics seem to have gone nowhere. The royal institution is not ready to stop interfering or undergo reform. But the more it detaches itself from reality, and this is dangerous for its survival.

Pavin Chachavalongpun is associate professor at Kyoto University's Centre for Southeast Asian Studies

## Emerging economies move in on the big boys

**Donald Gasper** says roles are changing on the world stage as BRICS nations take their turn in spotlight

Things are changing in the world. BRICS member states are exerting growing influence on most major global issues, including recovery of the world economy in the post-crisis period, reform of international financial institutions and ensuring food and energy security.

So it should be no surprise that top-level business forums, like the World Economic Forum in Davos, are no longer the monopoly of the West. To further upgrade integration in global economic affairs and increase their role in policymaking, BRICS countries (Brazil, Russia, India, China and South Africa) are hosting an increasing number of such forums – for instance, the regular large-scale gatherings of political and business leaders in Boao (博鳌), Hainan (海南省) province, and St Petersburg, Russia.

The St Petersburg International Economic Forum which is currently taking place, is worth watching. The theme is "Emerging Leadership for a New Era". At a series of high-profile meetings, international experts, including politicians, are sharing their views on the changing global situation and business environment. With the growing realisation that the factors which led to growth in the previous decade have been exhausted, discussion is widely expected to focus on the increasing influence of the BRICS countries on regional markets' prospects.

Since it was first held in 1997, the forum has grown in

importance as a unique platform for bilateral and multilateral contract negotiations and the clinching of deals. Last year, 68 investment agreements were signed (compared with 47 contracts in 2010), with the 17 largest deals totalling more than US\$10 billion. With the prospect of a new phase in the privatisation of state companies and economic modernisation and innovation in Russia, there will be a fierce battle to win shares in Russian blue chips and acquire favourable conditions.

It is interesting to note that Asian nations are paying more attention to the St Petersburg forum. A preparatory meeting was held in Hong Kong in April, where panellists discussed, among other topics, the potential for Russia to expand trade and investment in Asia and further regional economic integration; Asia's potential role in investing in and developing Siberia; and, Russian firms enhancing investment and trade in Asia. A road show was held in Singapore in the same month.

Moscow no doubt sees the forum as an opportunity to attract investors from the Asia-Pacific economies, especially from China, South Korea and Japan. It also appears it will become an important component of Russia's preparation for the next The Asia-Pacific Economic Co-operation forum summit, scheduled to be held in Vladivostok in September.

Donald Gasper is a Hong Kong-based journalist